A case study on foreign acquisitions of Geely Auto: *From zero to hero*

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ABSTRACT

Over the years, Geely has experienced failures, challenges, and successes. The company went from low- quality cars to new advance technology products such as electric cars. Geely will employ highly automated advanced manufacturing systems, including artificial intelligence and robotics with an innovative Digital Marketing Transformation concept. This case study aims to review the effectiveness of Post Geely acquisition's plan to enhance Geely's self- reliance and global competitiveness. This case study suggests the need for a review of the business strategy given the challenges imposed by climate change having an impact on the automotive industry. To develop the necessary long-term competitive advantage, the company needs to evaluate the potential impact of the Electric Vehicles (EVs) market and Internet of Things (IoT) with 5G Technology.

Keywords: *digital marketing transformation, augmented reality (ar), virtual reality (vr), mixed reality (mr), mergers & acquisitions*

1.0 BACKGROUND INFORMATION

Geely was established in 1886 and ventured into the car market in 1997, selling passenger cars under the Geely Auto, Lotus, Lynk & Co, PROTON, and Volvo personal and commercial vehicles under the London EV Company brand (Ahmed and Humphreys, 2008).

The company did not have good car knowledge and technology when it first started. Hence, they applied the "Asian Games Strategy" which is to purely compete in pricing by adopting the lowest selling car price in the market. The price of an entire car could be lower than the combined cost of all the major car components. As a result, consumers have a negative impression that Geely produces inferior low-quality vehicles. A common sentiment is that "Car parts that can "see" are available, but car parts that cannot "see" are not there!" indicating the view that consumers felt being short-changed by Geely-produced cars.

Mr Li Shufu, the Chairman of the Geely group, then realized the need to leverage foreign automotive technology to improve the quality of the cars produced. Thus, he purchased a Mercedes and discussed with his staff what they should have to do to create the best quality cars. A team of technicians assembled to strip down the Mercedes-Benz piece by piece to start learning how to build cars. The team was unable to piece the car back together, but they did figure out how to produce the company's first automobile, the 1996 Geely No.1, a Mercedes knockoff. Studying the

Mercedes was central to Geely's strategy.

In 2007, Geely started to remodel their approach from a "low-price strategy" to harnessing advanced technology to provide reliable quality services and holistically leading the industry. "Nobody would have thought it could be Geely," said Hakan Samuelsson, CEO of Sweden's Volvo Cars, which Geely acquired in 2010. "But today it is a good guess." Based on literature findings, the authors have identified some of the critical problems face by Geely Auto as follows :

1. Lack of technology know-how. As technology patents take up lots of time and investment in R&D, the critical management team can play a significant role to drive both internal as well as external resources to invest in technology and people's skills across the entire organization.
2. Fierce competition in the Chinese domestic market possibly influenced by government policy and supports.
3. Lack of professional knowledge. Family members hold key management positions. Strong leadership is required by the top management, especially the CEO, to restructure the organization structure through professional hiring from the external source and to put the right people in the right place.
4. Over-reliance on selling low-cost cars in their domestic Chinese market had resulted in a negative association of the brand with low reliability even that might not have been the case. The change in business model is to create strong branding and superior quality cars to be produced primarily to expand the business globally. It is successful in adding values as the world top leading car producers.

2.0 CASE LITERATURE

Strategic planning is one of the most crucial aspects for the success of any business. As explained by Porter in his article "What is a strategy," it is considered as the creation of unique as well as the advantageous position that involves a set of various activities (Porter, 1996). It helps in meeting the needs of the customers. Hence, considering the importance of strategy, it is essential that organizations must undertake the effective strategic planning which is the process of establishing as well as documenting the business activities (Austin et al., 2003). The process provides an opportunity of the recording the mission, vision and values on which the organization is based. Considering the significance of strategic planning and management, it is highlighted by Porter (1996) that operational efficiency is not enough for success since the companies also need to consider the compelling strategic management aspects for the meeting the customers' needs and enhancing the profits and growth. Literature shed light on the importance of strategic management or planning about the effectiveness of the company's success.

It has been identified from the study of Chaffey (2013) that the consumer in today's world has moved towards advanced technologies and media, and every time customers make interaction with marketing messages via the internet. Therefore, it is difficult for a business to survive without using digital internet marketing. The company may target its potential customers by spending much via digital marketing mediums. Car retailing industry is a fast-growing and changing sector as Geely has an international presence in various regions of the world. In those regions where Geely is not present physically, they can also sell their products via the website on the online stores. Therefore, to compete with its competitors, Geely has to utilize digital marketing mediums, with an effective digital marketing plan. Geely can retain its share in the market and increase its revenue. Furthermore, digital marketing is a cheap source to reach maximum potential customers and target its customers without facing any barrier (Czinkota, Ronkainen & Moffett, 2002;

Chaffey, 2016).

The current state of globalization for companies to expand internationally requires a creative and innovative business model that adopt e-commerce platform and rapid digitization, the worldwide race for talent and new emerging markets for their products. Instead of a traditional business model that does everything or producing themselves, companies should leverage on outsourcing (Kerr, 2016).

International business strategy often uses the cross-border opportunity to lower prices. They begin with the intention of taking the best services or products of the firm to global markets. Analyzing this issue, Kerr describes the first methods as globalization the best that a company can offer (Kerr, 2016). Such a firm is less likely to use digital platforms and network efforts. They also often use the approach of directly own core assets and own resources. Kerr uses a systematic methodology to research how international business models apply profit recipe in enhancing current services and product. Simultaneously, other firms generate their business on top of international trade.

Kerr reviews that "harnessing" the best that the world has to offer" (Kerr, 2016). Such companies' hardness the ideas and resources of others. They are likely to use digital platforms as they need global span to achieve success. Uber, Airbnb, Grab, Agoda are using disruptive technology strategies approaches to globalization without owning the products and services but tap on outsourcing. The business model also looks into addressing an unmet need - often by taking a non-traditional approach to solving a customer problem (Kolk, and Pinkse, 2004). Marketing Executives should first consider the trade-offs between the costs and benefits to develop the best strategy for the company. It will help business entities build long term advantages to reap the potential rewards of globalization.

3.0 CASE STUDY METHODOLOGY

The author constructs a Build-Borrow-or-Buy Framework which is the back bone of this case study in which provides a conceptual model that supports businesses in selecting the right approaches before jumping into acquisitions decisions. A combination of secondary and primary data has been collected to analyse the case. Secondary data collected from books, company's annual reports and financial news reports. To cross check the findings, primary data has been conducted through interviewed with Geely Group Vice President, Ms Zhang Aiqun at their headquarters in Hangzhou, China. Therefore, this provided first hands insights and clear the air in the event of any contradicting findings.

4.0 FINDINGS

4.1 The market challenge

Geely has been working on expanding its' global presence. They plan to access capital for expansion in the manufacturing and export business. Geely adopts low pricing of products which is made possible by its strategic location in China. They have access to cheap labour, huge facilities and various locations across China with low operating and manufacturing costs. They have also invested a lot in Research and Development (R&D) innovation to master key technologies to develop their unique products. To increase sales, Geely has built a dealership and service network with call centres across regions to manage customer services.

Although Geely has been performing very well in the domestic market, the limitation of superior brand and designs have hindered them in establishing a healthy foot in penetrating the global market. Compared to international players, Geely is perceived to offer lower quality products, lesser features, and inadequate safety and environmental innovations (Chen, Wang, & Young, 2015). They also lack proper knowledge of intensive online marketing. Despite their high sales, it does not translate to more significant profit as they were selling a low-cost car with a low-profit margin.

Geely owns a wide range of resources, including a pool of engineers in the R&D department. The manufacturing standard is through the manual workforce (Balcet, Wang, & Richet, 2012). The company is well known for technology reproduction via a reverse engineering of in-house product architecture innovation. The most significant advantage of Geely's expansion has been the financial support and backing from the government.

Energy-efficient cars are the next target for Geely. New energy cars represent the future in the automotive industry. With Geely's internal resources, they remain behind the initiative as Mr Li acknowledged that China still lacks the appropriate technology. It would be unfeasible for Geely to go down the route of pursuing R&D internally due to too high costs and time required. China is far behind than the West. Ford and Volvo spent ten years, with more than $10 billion (Xia, & Zhang, 2011).

Geely, a Chinese-born car manufacturer, was not recognized by any automotive outside the country. Their export sales were meagrely compared to its domestic supply. The majority of their exports were to developing countries such as South Africa, South America, Pakistan, Bangladesh and Uruguay. These countries lack spending power compared to the first world and developed countries; the export market to them does not give a significant return in revenue.

Additionally, Geely's safety emission regulation does not comply with those of developed countries. Their vehicles are known for the low-cost production and poorly designed in handling and built with an insufficient safety feature. According to the crash test, one of Geely's saloon models given a mere 10% survival rate (Yao, & Wang, 2014). The standard safety features, negative criticism and publicity created an unfavourable impression of Chinese automobiles, leading to a lack of trust in the global automobile market.

Chinese manufacturers earlier customarily copy foreign technology. They lacked the traditional automobile production and design expertise of European countries. They have been producing vehicles using reverse-engineering technology-based of foreign automobiles. To achieve low-cost production, the Chinese engineer would examine a foreign car, remove all the high cost and non-critical parts (such as airbags and auto power windows), and other expensive items to build a brand new Geely's car (Yakob, Nakamura, & Ström, 2018). These led to customer complaints about a lack of reliability, safety, and creativity, which deteriorated the confidence in domestic car production. Mr Li realized that Chinese engineers might have a long way to go before it can reach the sophisticated global market expectation. To overcome all these technical obstacles, Geely is eager to speed up the development process. The only way to be equipped to tackle these challenges in a short period is through acquisition.

4.2 The strategy

- **Technology**

Buying the right car can be challenging whether it is selecting a model or right interior and the various options available. With AR and VR, Geely can tap on these new technologies to overcome multiple challenges in a scalable and affordable way. A car often reflects an individual's personality. Immersive VR can help car manufacturer form a deeper emotional connection with its customers as these will allow Geely to create a more personalized marketing platform for customers. A Mixed Reality (MR) experience, which combines both AR and VR real-world and digital objects interact, will further enhance the customer's journey with Geely.

- **Alliance vs Acquisition**

To improve and penetrate the global market, Geely had to apply strategic changes into a new environment, conduct a situational analysis of their resources, understand their strengths, and choose alternatives to increase their demand (Collis, 2014; Rothaermel, 2016). To form an auto industry alliance as "tech invaders" is a question about the viability and logic in the automobile industry. It is tricky for a partnership to work without compromising each independent leadership and their key technology, as strong companies with advanced technology will not share their expertise where they have a competitive advantage. Mr Li believed that a joint venture or alliance, in the long run, will lose its proposition, as he envisaged that the Chinese might lose their bargaining power with their established foreign partners. The latter would maintain their tight control over finance, product knowledge, technologies and management skills to maximize their returns. Apart from the controlling measures in place with an alliance or licensing, Geely would not own any Intellectual Property of any part of the products and technologies. Most of the trade secrets would still be kept by the owner, with Geely receiving directions from the owner.

Volvo is a well-known, respected luxury car producer in Sweden. Today, Volvo is preparing for a new future which will be all-electric, autonomous and well connected. On the contrary, Geely originated as an unknown low-quality and low-price automobile manufacturer in China. There is a significant disparity in their branding, product, technology, and customer segmentation (Calipha, Tarba, and Brock, 2010). Geely's Chairman, Li, had been interested in acquiring Volvo for some time, but Ford had no intention to sell Volvo.

There are a few reasons for the interest in acquiring Volvo. The reasons are because they produced a strong, sturdy and safe car that can withstand the cold and harsh climate. They became the core competency and premium brand in the automobile market. Ford saw the potential in Volvo as a luxury European car producer, and Mr Li believed that the acquisition would strategically penetrate the European market. Unfortunately, in the mid-2000s, Ford faced fierce competition by Mercedes, Lexus and BMW, allowing customers to have a more excellent choice. The unfavourable exchange rate further aggravated the situation due to the economic crisis, and Volvo sales dropped despite efforts in restructuring and cost- cutting. Geely took this opportunity through acquisition to expand overseas, especially in the European market as this would shorten the time to elevate their brand. This move not only strengthened the brand both domestically and overseas but also lifted the image of Geely in the global automotive perspective.

The next point of discussion is the access to a highly reputed safety design, advanced environmental technology and sturdiness of the premium Volvo car. Over the years, Volvo has achieved substantial innovations in safety, durability, and stability. Ford and Volvo had spent more than billions of dollars in R&D for new technology. Volvo passed the safety assessments conducted by the authorities and became one of the most popular cars sold in Europe. Volvo's comprehensive and advanced technology, its R&D process, and its global customer management skills were desirable. Geely lacked these technologies and skill; they realized that the way forward for a shorter path to success was by the acquisition of Volvo rather than starting the process and developing themselves. Since funding is an essential part of the project thus in this regard, it has been identified that the acquisition was possible due to the government policy as the government has provided the funds for the acquisition in the given case.

Volvo was making losses when Geely carried out the acquisition. However, Geely believed Volvo would be profitable in the long run as they foresaw that the recession would end soon. As there would be a few new Volvo products launching in the market, Geely believed they could help

Volvo penetrate the fast- growing Chinese market. At the same time, Volvo paved the way to open the European market, providing a win-win situation for both parties.

Geely completed Volvo acquisition on 2 August 2010 and significantly represented Geely's long- term strategy of international expansion. Mr Li had informed the top management team to look for potential opportunities to acquire international car producers since 2002 despite his management teams were not convinced (Fang, & Chimenson, 2017).

The world financial crisis began from 2007 to 2009, resulting in a world economic recession. Consumer consumption and economic activities decreased rapidly during this period impacted much in the automobile industry. The sales volume of Volvo dropped from 420,000 to 350,000 cars from 2008 and 2009. The significant sales decline caused revenues to be significantly affected. Before, Volvo had been making losses since 2006 (Fang, & Chimenson 2017). It encountered substantial loss in the company's history of approximately US$1.5 billion in 2008 (Refer to Appendix: Volvo's Finance situation before being acquired by Geely (Figure 1.1-1.3). Ford, the previous owner of Volvo, registered a net loss of US$14.7 billion in the same year. This critical situation triggered Ford to sell Volvo to reduce its financial burdens and remain focused on developing its brand. In Geely's internationalization trajectory, they have always pursued a consistent strategy of asset- seeking FDI. Geely rapidly improves its R&D capabilities and core competitiveness through investments. Apart from Volvo, Geely also acquired many other brands.

In 2013, Geely acquired Manganese Bronze Holding (MBH) and became the owner of London's classic taxis and its affiliated assets (Yakob, Nakamura,& Ström, 2018). The company planned to use it as a base to sell Geely cars in the European market. In March 2014, it also acquired the British electric start- up, Emerald Automotive, which helped London taxis transform its technology. In May 2017, Geely acquired 49.9% of Proton Holdings and 51% of the British luxury sports car brand Lotus Group. Through Proton, Geely also expanded its businesses into the South East Asia market, establishing the R&D and manufacturing presence in this region. In June 2017, Geely purchased the entire industry and assets of US flying car start-up Terrafugia for US$ 600 million and aimed to create the first flying car within the next two years. Even though that may take many years to realize, Geely still ventured in first to adapt the know-how strategy as part of its long-term development plan. In February 2018, Geely acquired Daimler's 9.69% stake with an estimated worth of US $ 9 billion and became its largest shareholder. In September 2018, Geely purchased 51.5% equity of Saxo Bank at a transaction price of over US$800 million.

After this series of mergers and acquisitions, Geely has perfected the direction of each of its brands. Geely's Emperor, Borui, and Boyue are mainly mid-to-low-end and mainly focus on the Chinese market; Gecko is mostly the mid-to-high-end and focuses on the Central European market. Volvo positions itself at higher-end and focuses on the European, American and Chinese markets. London taxis are mainly commercial vehicles, focused on the European market. Lotus is primarily a luxury model, focused on Southeast Asia and the global market (DePamphilis, 2010).

As such, Geely became the leading Chinese carmaker and had the opportunity and right to sell to the rest of the world. It has been a successful learning journey for Geely to become one of the world's top ten automobile groups in such a short period and realize their dream of "Geely Cars Go Global!"

4.3 Strategy highlights

Table 1 : Geely’s Strategy Summary

Geely	Build	Alliance	Acquisition

Branding	Limited to China only	Overseas exposure by borrowing name	Top-notch in market
Location	Asia	Asia and a specific part of the world	Global
Technology	Limited, in-house only	Limited access to technology as the owner will not reveal	Own the technology
Expert Engineer	Limited	Sound engineer but do not own them.	Own all the powerful elite team
Strategic geography for manufacturing plants set up	Good location	Might be in Europe as Volvo still take control	Freedom to explore any part of the world
Design and know-how - knowledge	Copy and reverse engineering from others	Will get support from the company but might not be all	own the design, worry-free
Plant and labour cost	Cheap labour and cheap manufacturing plant in China	Could be expensive if Geely sticks with the original manufacturing plant and location.	
Finance	Full control	Not in control	Full control
Safety verification	Very poor	Improve version	Improve
Customer base	Domestic	Global	Global
Branding	Limited to China only	Global	Global
Export market	3rd world countries	Global	Global
IP rights	No	Belong to the owner no access to Geely	Geely owns the IP

5.0 CONCLUSION

5.1 Current Situation

Geely, in its early stages, was mainly driven by technology, and they aimed to achieve low cost and low-price strategy in the production of low-end cars that were affordable to all. As Geely progressed with their initial in-house ability, they realized they were facing fierce competition to penetrate the overseas market. Hence, the thought of catching up with international growth was driven by asset acquisition, which led the little known Geely to become an ambitious acquirer in the global market.

In the case of Volvo Cars, the Chinese owner Geely appeared to have outperformed Volvo Cars' than American owner Ford, suggesting that Chinese business practices may be more competitive and effective in strategy planning. The acquisition was met with strong initial resistance but has grown to be increasingly promising.

After the acquisition, Geely's products have also shown significant improvement in technology and design with the help of Volvo, becoming a stronger player in the competitive automobile industry. This is directly reflected in its rapid growth in its sales volume and revenue. Benefits might have also been brought in other minor aspects like cost reduction and marketing. To summarize, the following factors have contributed to the success of this acquisition:

- There was a crystal-clear goal acquisition strategy with careful preparations before the deal. Geely developed an interest in Volvo long before the acquisition originated and conducted comprehensive research into the target. It was persistent and patient enough to wait for the right time to arise. A strong and professional advisory team was organized and contributed significantly to the success of the deal.
- The deal was consistent with the government strategy to strengthen the nation's automobile industry and was therefore favoured by the government. As a result, Geely received a large amount of government-related financing, which was instrumental for Geely's successful completion of the deal.
- Appropriate post-deal strategies. Independence was given to Volvo after the acquisition to preserve its premium brand image and to minimize cultural conflicts that might come with a high level of integration. A bright and active communication was maintained with labour unions and employees to mitigate potential conflicts. Great efforts have been made to promote cultural integration in its management. A clear governance structure was established at the outset to ensure effective corporate good governance. Joint R&Ds and design were carried out to make sure that the core synergy can be realized.
- Right timing. The deal happened during the financial crisis, which allowed Geely to have the opportunity to buy Volvo at a relatively low price. The recovery of the global automobile market after the financial problems also partly contributed to the turnaround of Volvo's performance.

5.2 Future challenge

The operation of international corporations will never be a smooth, sailing journey. The acquisition faced multiple challenges such as differences in cultures, languages, currencies, rules, and regulations of different countries, different tax systems, tariffs, and other restrictions, different customer bases, and costs of productions, etc. Some significant challenges that Geely may encounter in the future include the followings: -

- The international situation is unpredictable, and the risks are everywhere. This risk is reflected in political risk, policy risk, business risk, legal risk (rules and regulations of different countries), war risk and personal risk.
- Challenges from tariffs, trade, and technical barriers. More and more countries are designing technical and obstacles to trade for the automotive industry and gradually increasing tariff barriers. Tariff influences the trade patterns by making the product more expensive hence hamper the demand for imports.
- Product adaptive development and improvement, export car companies need to carry out a large number of adaptive evolution and progress of products for different countries and markets. The legal requirements, natural environment, driver's driving habits, and customer preferences are all different in each state. This forces the car company to conduct subsequent development before entering any market, which has led to rising costs and delays.
- The automobile export business is affected by the fluctuations in the international economic situation. Once a global or national market economic and financial crisis occurs, it will be a

massive blow to the overseas business of domestic auto companies. Besides, the fluctuation of the currency exchange rate in overseas markets poses a considerable challenge to the profitability of car companies.

- Chinese car companies generally use agency systems for operations and management in overseas markets. However, there are certain drawbacks where many China's car export companies are still staying in the trade-type stage than the marketing-type. If an automobile company wanted to make significant progress in the overseas market, it must transit from trade-oriented to a marketing-oriented strategy to enter the market. This transformation might take a long time, but it seems it is the only way for any independent brand to grow, and the challenges are enormous.

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